

From: [Jim Patterson](#)
 To: ["Jim Patterson"](#)
 Subject: FW: The Sunday Brief: 2Q Wireless Results Preview - Experiments, Projections, and Pressures
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From: Jim Patterson [mailto:jim.patterson@mobilesymmetry.com]
 Sent: Sunday, June 26, 2011 8:48 AM
 To: 'mobilesymmetry@gmail.com'; 'Jim Patterson'
 Subject: The Sunday Brief: 2Q Wireless Results Preview - Experiments, Projections, and Pressures

Greetings from Kansas City, where the Patterson family garden is starting to yield all sorts of fruits and vegetables. If only the post-paid wireless market were showing equal growth in the second quarter. With the exception of Verizon Wireless, who is running the table on the high end of the market with "switchers" thanks to the Thunderbolt/ Revolution/ Charge 4G handset trio, and AT&T's iPhone 3GS \$49 offer, which is driving the entry point in the market for advanced smartphone services, it's a quarter marked by experiments, projections, and pressure.

Experiments. With Verizon's handset lineup and the loss of the iPhone 4 exclusivity, AT&T had no choice but to respond with variety. This is the slide we used in the column a few weeks back called "Still an Android World":

Smartphone Positioning By Carrier (as of June 12, 2011)

Source: carrier websites with 2-yr contract. Refurbished phones excluded.

Website price w/ 2-yr contract				
\$199.99 and above	Apple iPhone4 Samsung Infuse	Apple iPhone4 LG Revolution (4G) Droid Charge (4G) Xperia Play by Sony Droid X2	Google Nexus S (4G) HTC EVO 3D (4G) Motorola XPRT (4G) Blackberry Bold 9650 HTC Arrive HTC Touch Pro 2	T-Mobile G2x (4G)
\$99.99 - \$199.98	HTC Inspire (4G) Motorola Atrix (4G) Samsung Captivate HP Veer (4G) 9 of 21 Android	Droid Incredible 2 (4G) HTC Thunderbolt (4G) Casio G'zOne Commando Blackberry Storm 2 9550	HTC EVO 4G HTC EVO Shift (4G) Kyocera Echo Motorola i1 Samsung Epic 4G Blackberry Curve 8350i Blackberry Tour 9630	Samsung Galaxy S 4G T-Mobile Comet T-Mobile Sidekick 4G T-Mobile MyTouch 4G Dell Streak 7 Motorola CLIQ 2 Samsung Vibrant HTC HD7
Under \$99.99	Apple iPhone 3GS Pantech Crossover HTC Aria Motorola Bravo Motorola Flipside Sony Ericsson Xperia LG Quantum HTC Tilt 2 Samsung Jack Blackberry Torch Blackberry Curve 3G Blackberry Pearl 3G Palm Pre Plus Palm Pixi Plus Sony Ericsson Vivaz	Droid X Droid Pro Droid 2 Global Samsung Continuum Blackberry Bold 9650 Palm Pre 2 HTC Trophy Motorola Citrus LG Ally Samsung Fascinate Blackberry Curve 9330 LG Fathom 14 of 21 Android	Samsung Replenish Samsung Transform LG Optimus S Sanyo Zio Blackberry Curve 3G Blackberry Style 9670 Palm Pixi 12 of 20 Android	LG Optimus T Motorola DEFY T-Mobile myTouch 3G Blackberry Bold 9780 Blackberry Curve 3G Nokia Astound 11 of 15 Android

Since June 12, AT&T has lowered the price of the Atrix, HTC inspire and HP Veer to \$99.99, and slashed the Samsung Captivate to \$49.99. Similar or greater reductions can be found on-line at Walmart.com, Best Buy, or Radio Shack. Simply put, there's a lot of non-iPhone inventory at AT&T right now. The diversification test ("Can AT&T thrive without iPhone exclusivity?") is failing.

Fortunately for AT&T, there's the iPhone 3GS, which has been attractively priced at \$49 for the entire quarter. Customers who are renewing (and June is a big renewal month for AT&T) their iPhone services are likely receiving compelling if not free offers (we've been offered a free iPhone at Mobile Symmetry to keep our test phone unit on AT&T).

Then there's Sprint, who has experimented with dual screens on a 3G device (Kyocera Echo), 3D on 4G (HTC EVO 3D), a Wi-Fi only Blackberry Playbook, and a (now) free phone with an MRC discount (Samsung Replenish) this quarter. Like AT&T, Sprint has slashed prices on the EVO and EVO shift, which are now available through Walmart.com for \$9.99 (not a misprint) with a new 2-yr agreement. Sprint, like Verizon and T-Mobile, also experimented with the introduction of a Windows 7 phone this quarter to mixed results. Sprint also took a very bold move in March with their Google Voice integration announcement (allowing a Sprint user to port his Sprint wireless phone number to Google Voice). Both Sprint and Google have been quiet on the results.

Broadband saves Sprint in the second quarter. Without the EVO launch a year ago, Sprint would be in dire straits. Sprint's dependence on 4G (and the handsets that power them) is significant. A \$10 EVO accelerates gross additions from 3Q to 2Q, and the Replenish becomes a secondary feel good headline.

That leaves **T-Mobile**, the wild card of the industry. As a reminder, here's the rolling 9-quarter post-paid trend:

Comparison of Retail Postpaid Net Additions									
Retail Postpaid Net additions	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Verizon	1,200	1,044	901	1,106	412	661	584	872	906
AT&T	897	1,128	1,333	841	512	496	745	400	62
Sprint	(1,250)	(991)	(801)	(504)	(578)	(228)	(107)	58	(114)
T-Mobile	160	56	(140)	(117)	(119)	106	(60)	(317)	(471)
Total Top 4 Wireless	1,007	1,237	1,293	1,326	227	1,035	1,162	1,013	383
Verizon as % of VZ + AT&T	57%	48%	40%	57%	45%	57%	44%	69%	94%
Sprint/ T-Mobile spread	1,410	1,047	661	387	459	334	47	(375)	(357)

When we left T-Mobile in early May, the results were deteriorating rapidly, but the focus was on the AT&T merger. Assuming AT&T does not attract a significant amount of gross additions in the second quarter, and 4G and the iPhone4 continue to propel switchers toward Verizon, the picture likely weakens for T-Mobile in post-paid. Even with Sprint's newly implemented data surcharge, the rate difference is not compelling enough to lure Sprint 3G switchers to T-Mobile.

Assuming Sprint's net add/ loss continues to be in the +/- 200K range, and Verizon grabs a disproportionate portion of the handset market, the combined AT&T/T-mobile entity will likely lose 300-400K subscribers in the quarter. While this does not call into question the value of T-Mobile to AT&T (network synergies more than cover that), it does call into question their combined long-term growth rate in an all-LTE world.

Projections. This will be the most important part of the earnings results. Given Verizon's undisputed strength in 4G, the following questions will arise:

1. **To Verizon:** How quickly can you improve your 4G coverage and reduce the load on the 3G network?
2. **To Verizon:** How soon to a 4G only device for consumers, and for the Machine-to-Machine (M2M) marketplace?
3. **To Verizon and AT&T:** When will the 4G version of the iPhone be available?
4. **To AT&T:** When will you equal Verizon's 4G speeds on a similar footprint?
5. **To Sprint:** How soon can the LightSquared network get deployed? Where will the money come from? How does Clearwire fit into this equation?
6. **To Sprint:** Can you really build out Network Vision (the new LTE network) for less than \$5 billion in 2012 capital spending?
7. **To Sprint:** How quickly can you transition away from the high-cost iDen network?
8. **To Sprint and T-Mobile:** How soon to the Apple 4S launch? Is it really September, as some news organizations have speculated?
9. **To T-Mobile:** How quickly can the merger close? If it's 3Q or 4Q 2012, what are your customer/ dealer retention strategies?

There are many more questions, but analysts' eyes will be on improving performance throughout the year amid the backdrop of a fragile economy and an uncertain job market. New devices (Apple 4S), new networks (4G), and increased/ changed pricing plans provide clarity.

Pressure. The largest wireless carriers face many pressures, none of which is as great as the pressure to generate increasing cash flow and margins. This is difficult to do solely on the back of a data price increase. Voice profitability continues to rise as younger demographics use fewer minutes and more messaging/ social media. Texting and SMS cash flow will remain strong, but push SMS services abound in the applications world and are proving to be a viable substitute for many cash-conscious consumers and families. And subsidy pressures will continue for several more quarters as smart phone adoption curves continue.

These pressures hit each of the carriers hard. Data usage, [as we reported last week](#), is growing at high double digit percentage rates. The need to carry a fast processor on a fast network with wi-fi availability to run Netflix applications is not going to diminish. The pressure to offer sexier applications that require more data consumption across Apple and Android platforms is not going to diminish. Free smartphone pressure will also continue to proliferate, particularly at the end of each quarter. And, as we have discussed several times, the closer we get to "free" the greater the appeal of MetroPCS, Cricket, Virgin Mobile, and Boost pricing plans.

Bottom line: The second quarter will be marked by Verizon's dual successes in iPhone and 4G, as well as the staying power of AT&T's iPhone 3GS. Sprint and T-Mobile will continue their trends (Sprint flat to up, T-Mobile down), and margin pressures will increase despite data rate price increases. MetroPCS, Leap/ Cricket, and others will take more share than expected due to attractive handsets and 3G pricing. Everyone will make a lot of projections, primarily about network rollout and new handset launches, and the believability of these projections will drive stock price targets.

We will not be taking a break for the 4th of July, but will instead visit the business market in a special edition of The Sunday Brief. Thanks for reading, passing it on to a friend, and for [Registering](#) with Mobile Symmetry!

(The 5 you may have missed will be posted to www.thesundaybrief.com website tonight).

Jim Patterson
 CEO & Co-Founder
 Mobile Symmetry
www.mobsym.com
 816.210.0296
 Click [here](#) for our new Facebook site!
 Twitter: @mobilesymmetry